

IMPLEMENTATION OF THE HELSINKI ACCORDS

HEARING BEFORE THE COMMISSION ON SECURITY AND COOPERATION IN EUROPE NINETY-SEVENTH CONGRESS SECOND SESSION

SOVIET INVOLVEMENT IN THE POLISH ECONOMY

APRIL 1, 1982

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CONTENTS

IMPLEMENTATION OF THE HELSINKI ACCORDS

SOVIET INVOLVEMENT IN THE POLISH ECONOMY

APRIL 1, 1982

WITNESS

	Page
Rurarz, the Honorable Zdzislaw, former Polish Ambassador to Japan	2

(iii)

COMMISSION HEARING ON SOVIET INVOLVEMENT IN THE POLISH ECONOMY

THURSDAY, APRIL 1, 1982

COMMISSION ON SECURITY AND
COOPERATION IN EUROPE,
Washington, D.C.

The Commission met, pursuant to notice, in room 2212, Rayburn House Office Building at 2 p.m., the Honorable Dante B. Fascell, chairman, presiding.

Also in attendance: Mr. R. Spencer Oliver, staff director and general counsel of the Commission and Christopher Brescia, staff assistant.

Mr. FASCELL. The Commission will come to order. Since its inception in 1976, the Commission has monitored compliance with the Basket II provisions of the Helsinki Final Act. This hearing is part of our ongoing effort to document the status of Basket II implementation. In that section entitled, "Cooperation in the Field of Economics of Science and Technology and of the Environment", the 35 participating states agreed that cooperation in these fields would "contribute to the reinforcement of peace and security in Europe" and "should take place in full respect" for the 10 principles guiding relations among states in Basket I.

One of the specific provisions of Basket II obliges the signatories to improve the quality and increase the quantity of economic and commercial data available to the other participating states. The Eastern record of implementing this and other Basket II commitments is one of the topics we plan to address today.

Another topic of interest to the Commission is the role of the Soviet Union in the Polish economy. Over the years, there has been almost continuous debate within Western economic circles as to the precise economic relationship between the Soviet Union and the countries of Eastern Europe. The issue of subsidization versus exploitation has been debated on the basis of data derived from a variety of sources, including official sources. The reliability of that data, however, is often questioned.

Our purpose today is to review the record of Soviet involvement in the planning, direction, and operation of the Polish economy, a subject which has previously been the source of much speculation. The high rate of Polish indebtedness to the West has been presumed to be the result of poor management, bad planning, and an inflexible economic system. Some analysts place the blame for the current economic crisis squarely in Poland's lap; others point the finger at the Soviet Union. Today, we hope to shed light on this

issue by receiving testimony based on the personal experience of one of Poland's leading economists and a former government official and, of course, I'm speaking of former Ambassador Zdzislaw Rurarz, who was Poland's Ambassador to Japan from February 1981 to December 1981, when in the aftermath of the Polish imposition of martial law he requested political asylum in the United States and now lives here with his family.

Ten years prior to his appointment as Ambassador, Professor Rurarz served as Economic Adviser to several Polish leaders, including the former Communist Party head Eduard Gierek. During that period, he was also Poland's permanent representative to the negotiations on GATT and served as an adviser to the Secretary General of the United Nations Committee on Trade and Development. He served in the Ministry of Foreign Trade as a Division Chief, and then later as adviser to the Minister of Trade and, at one time, was the commercial attaché in the Polish Embassy here in Washington.

He was on the faculty, first as an associate professor and then as a full professor, at the Central School of Planning and Statistics in Warsaw. He holds an M.A. and a Ph.D. degree in economics from that institution, specializing in foreign trade and international economics, and has written several books and in every way is eminently qualified, not only from training, but from experience and background, to discuss the subject that is before us today. We are very pleased and honored to have you, Mr. Ambassador, testify before the Commission today. You may proceed any way you like.

STATEMENT OF HON. ZDZISLAW RURARZ, FORMER POLISH AMBASSADOR TO JAPAN

Ambassador RURARZ. Thank you very much, Mr. Chairman. First of all, I should like to thank you for inviting me to appear before the Commission today to offer an insider's perspective of the trade and economic relationship between the Soviet Union and Poland.

Let me say from the outset that despite the absence of reliable statistics to prove the case, various elements of Soviet influence over Poland's economy all add up to something approaching total control. We are talking about an economic system that was imposed on Poland after World War II and today reflects many basic Soviet interests and needs. I will try to show that the Soviet Union plays an instrumental role in the planning process, the direction in which the Polish economy has developed its productive capacity, the direction in which purchases and sales are conducted, and the direction in which reform possibilities were denied.

My treatment of the subject today may be criticized as inadequate because I will not be citing overwhelming facts and figures to prove my point. I can only assure you that what I will be presenting today are ideas and themes that I know to be true from being involved in the economic development of Poland's economy, especially during the last 12 years.

Many of the facts and figures required and desired by Western economists do not exist, even in Poland, and I will explain that further on in my testimony.

Another main theme I will address is the cost imposed on the Polish economy for being an important ally of the Soviet Union and economic costs resulting from strategic and economic dependence.

Reliable economic and trade data is one of the most sought-after economic indices in Poland. Information in our system is considered classified information, as it is considered in most closed societies in Eastern Europe. Accurate economic reporting would demonstrate the failure of the Polish economy and, therefore, is repressed, contrived, distorted, or falsified.

Much of the statistical data is simply pure guesswork, based on reports that were never verified. To compound the confusion, with time, all the distortions accumulate to the extent that they become impossible to analyze even by governmental experts. Production figures are intentionally altered to meet production quotas, trade figures misrepresent actual trade levels to make trade look good. Our Soviet-imposed economic system mandates that the real facts never be released or even be made available to the various branches of Poland's economic planning apparatus. Very few people have access to the entire picture. Let me give you a few examples.

In order to reach planned coal production targets, the figures stated for coal may not only refer to nonassorted coal, but may also cover the weight of water and other materials deliberately added to the coal. Besides, even paper statistics also overestimate production.

While steel production figures suggest a certain usable output, in actuality, the entire crude output, including the one-third that goes back into the blast furnaces, is recorded to meet finished production figures. In many cases, data based on "value terms" should be treated with caution. Often when considered in physical terms, the story could be very much different than in value terms. Periodic price adjustments—usually upward, when it comes to COMECON trade—to intratrade may be, in turn, the real reason for "trade expansion" in that sector.

In the area of foreign trade statistics, the overall figure, for operational purposes, in the ministry of foreign trade includes so-called pro forma contracts that never actually materialize. Balance of payments and individual credit transactions are on the whole unreliable.

In an effort to discern the real picture, various ministries have begun collecting their own statistics and doing their own analysis. The scientific community has attempted several times to fill the gaps, but has been unsuccessful or their work is kept secret.

Mr. Chairman, I can say without reservation that any precise analysis of the Polish economic performance, especially by those outside Poland with no direct access to original sources of information and unaware of certain practices, is impossible. In addition to the various ministries falsifying data, the Ministry of Internal Affairs, which includes the security police, and the Ministry of National Defense must clear the release of any data for domestic and international consumption. These organizations work on the premise that Western intelligence sources should be misled by official sources as much as possible.

Poland is a signatory to the Helsinki Final Act and under provisions of Basket II has agreed to provide detailed economic and commercial information to the other signatories. Poland has not fulfilled this requirement by any stretch of the imagination. Poland's submissions have been severely incomplete and often inaccurate.

The terms of trade between Poland and the U.S.S.R. are still in the Soviet's favor. But let's look at some concrete examples of how the Polish economy was forced to develop and the type of control exerted by the Soviet Union in everyday direction.

It is important to understand that Polish industrial production is intricately linked to the Soviet war production, especially in electronics and engineering. The U.S.S.R., on purely military grounds, discouraged Poland from entering into various commercial deals that would not have benefited the Soviets.

One-half of Poland's production is in the so-called specialized production areas arranged by the planners in the Soviet Union to supplement Soviet and other CMEA needs. These areas of production include aircraft, automotive and machine tools. A tremendous amount of investment went into these industries to produce instruments and products needed by the Soviet Union.

It is my contention that the Polish economy shifted gears too dramatically from light industry and food-processing development to heavy industry after the war to specifically support the Soviet defense effort. On that I may be more specific during the period of questions and answers. This action alone still provides for a significant drain on resources both in terms of labor and raw materials. For a long time, Poland produced steam engine locomotives at the Soviets' insistence and sold to them, on the average, up to 250 units per year. When that industry wanted to retool toward new technology, the Soviets would not let them but insisted on continued production and exports to them. When they no longer needed steam locomotives, they simply stopped sending in their orders, leaving Poland holding the bag. Another example is in the manufacture of machine tools. The Soviets would demand that Polish industry manufacture specific machine tools, purchase these products and pay for them with inferior Soviet machine tools. By the way, on the average by 40 percent more expensive.

I cannot emphasize more strongly the element of control the Soviets exert on everyday production. You must be aware that for every Polish economic structure, there is a comparable security police structure watching over our shoulders. Over 80 percent of Polish top security police and Army elite are trained in the U.S.S.R. and provide a fifth column that informs the Soviet KGB of any deviation or initiative contrary to its interests.

Another example of Soviet tampering with our economic system is visible in commercial transactions. The Soviets insist that certain products be purchased from other COMECON countries or from them even if we had access to better Western products. Sometimes we were forced to import products we did not even need, like ditch diggers, Soviet passenger aircraft, or were made to produce electromagnetic clutches, et cetera.

No more than half of our total foreign trade was permitted to be with the West. Poland was not allowed to purchase Western commercial aircraft which was up to 50 percent more economical and

energy efficient than the comparable Soviet aircraft. At the same time, Poland was encouraged to purchase technologies from the West that could play a role in the overall Soviet defense effort.

In this respect, the Soviet Union demands that certain goods exported by Poland to the U.S.S.R. have a high ratio of import inputs from the West which contain high technology components. This is especially true of ships delivered by Poland where installed weather and radar equipment is specified by the Soviets, including components from specific Western firms. When these ships are returned to Poland for repairs, they are usually stripped of all this technology. The Poles are then told to replace the missing equipment under warranty. Poland is currently servicing over 1,000 ships in this fashion.

I would like to relate several stories of real incidences of Soviet use of Polish commercial counselors as agents for the purchase of technology. I might emphasize that these sort of events occur regularly in Western countries. One of these examples is when Poland chose to import Western technology to build a factory to produce commercial buses for eventual export and domestic consumption.

At that time, I, as Gierek's adviser, was approached by the Soviets who strongly suggested that the Poles purchase a West German KHD design rather than a French design. Apparently, the West German design included the same basic engine used by NATO in their vehicles. The Soviets expressed their desire for the Poles to purchase this design, go to the West and get whatever hard-currency credits would be necessary to establish production facilities to produce and sell up to 500,000 engine units—staggering figure—and spare parts of all sorts to the Soviets per year. All Poland wanted to do was to produce 5,000 to 6,000 buses a year. And although this has never materialized, this is just one example of a string of efforts by the Soviets to have the Poles act as commercial agents for their needs. Poland would be stuck with paying back the hard-currency loans, Poland would have to divert resources to produce for the Soviets to the detriment of potential exports to the West, and Poland would receive rubles for their efforts rather than hard currency.

Another example concerns a Polish commercial counselor's business contact in London some time ago which prompted a call from his Soviet counterpart who wanted an introduction. A meeting was set up, the three participants—Polish, Soviet, and British—discussed the UK manufacturers' turnkey operation and without a blink the Soviet asked how much his operation would cost. The manufacturer, unprepared for this type of approach, gave the Soviet a ballpark figure and the meeting was over. A few weeks later the Polish counselor was contacted by the Soviet and asked to set up another meeting. This time the Soviet informed the UK manufacturer that he would like to purchase 10 turnkey operations. It was, thus, the Polish commercial counselor that helped the Soviets in concluding the deal, although he did not comply to the request in helping the Soviets to get the credit. May I say, Mr. Chairman, that that commercial counselor, Mr. Wolynski, returned to Poland, was almost dismissed and then emigrated.

In another example in the electronic industry, equipment produced under a West European license and composed of many West

European components would periodically disappear from the industry warehouses. Reportedly, Soviet military personnel would appear during the evening and simply appropriate this technology and ship it directly to the U.S.S.R., with no records showing this transfer.

Compounding this type of direction and control, the Soviet Union is intricately involved in the planning process of the Polish economy. Let there be no mistake that no planning strategy is devised without the consent of Moscow. Moscow is very well informed about everything going on in the Polish economy. Apart from its own information sources, as many as 30,000 individuals made trips to Moscow in 1979 to discuss the direction and functioning of Poland's economy and its ties to the U.S.S.R. and other COMECON countries. As I have already mentioned, the Polish economic contributions to the Warsaw Pact military effort often necessitate that Moscow review plans for economic distribution of resources. So intricately linked is this process that many times certain investment schemes are devised to produce industrial capacity for military use.

A prime example of how influence by the Soviets has led to disaster is in the placement of the Katowice Steel plant in what the experts suggested was a totally inappropriate location. Today, we now have a totally inefficient steel plant, but the Soviet Union does have a wide-gauge rail system from the Soviet Union into that part of Poland, which is of strategic importance.

In tandem with this element of control is a major aspect of the current economic demise central to our discussion. Yes, the Soviet Union has imposed a system on Poland, but even more importantly, the Soviet Union has not allowed the Polish economic apparatus to alter the direction set by the Soviet Union.

Poland has not been allowed to rejoin the International Monetary Fund after she was forced to leave it for many years, nor has she been able to change her economic focus in the direction necessary to take advantage of imported Western technology. Again, on that I may say a lot during the time of discussion.

Polish efforts to move toward developing a consumption industry in the 1970's received a big "nyet" from our Soviet patrons. In addition to their unwillingness to allow economic reform, there was constant pressure by the Soviets to restrict increases in the standards of living in Poland. It was believed in the Soviet Union that Eastern Europe, Poland included, placed too much emphasis on domestic consumption. At one point, the Soviet Academy of Sciences suggested that if the standard of living was so much better in Eastern Europe, then the Soviets should increase the price of raw materials three to four times or Eastern Europe should decrease manufacturing prices accordingly. If not, then Poland and the others should invest in the U.S.S.R. and send surplus manpower to the Soviet Union.

Another example in which Polish hardliners garnered support from their Soviet mentors is in the area of agricultural reform. When forced collectivization failed to work in Poland, private farming continued to exist, but strong disincentives still persisted. The state deprived the farmers of some of their most basic tools, including fertilizers and farming machinery to work the land. This move-

ment led to serious disinvestments in Polish agriculture, which in turn changed Poland from a food exporter to net importer by 1973.

Opposition to meaningful reforms was due not only to the hard liners in Poland, but also, more importantly, to the U.S.S.R. itself. Poland is strategically much more important to the U.S.S.R. than, for example, Hungary. Poland's contribution to the Soviet military effort is too important to the U.S.S.R. to risk changes in productive capacity or reallocation of resources.

As I have mentioned, through combined efforts at falsification, control, direction, surveillance, and planning, the Soviet Union has exercised—and continues to exercise—tremendous influence and control over the economic development in Poland.

Poland is the biggest Soviet "ally" in Eastern Europe and the most important, strategically, to the U.S.S.R. Soviet military doctrine assumes an initial conventional confrontation, starting in Europe, more precisely in northern Germany. Under such a scenario, Poland is not only a corridor between Soviet troops in the GDR and the Soviet Union proper, but she is apportioned with an active combat role in the Soviet blitzkrieg. Her 15 divisions are supposed to be a "second wave" of a Soviet attack against Western Europe.

This strategic relationship makes Poland a particularly important "ally" to the U.S.S.R. and in turn makes Poland extremely dependent on the U.S.S.R. in all other respects. In the midsixties, Gulf Oil wanted to do extensive research in prospective oil fields in Poland, but the Soviet Union would not allow this activity. They wanted Poland to remain dependent on Soviet oil and gas, as it still is today.

The cost of this relationship is tremendous to Poland. There are unofficial estimates that the overall military effort, including the overblown security police apparatus, which is supposed to make Poland a trustworthy military partner, accounts for nearly 12 percent of the gross national product. In other words, the U.S.S.R. is capable of effectively blocking many genuinely Polish initiatives, even though it is Communist country, if they believe that such a move will not be in their interest. The overall cost of this precondition alone has been astronomical to the Polish economy.

The Soviets, through their "fifth column," were deliberately creating a chaotic situation in Poland in 1981 in order to discredit Solidarity and other democratic forces, but finally they ordered Jaruzelski to suppress these movements. As a result of that action alone, Poland's production fell further by almost one-fifth, and Poland is virtually deprived of help from the West.

If one adds up all these costs imposed on Poland, it is clear that Poland has had the raw end of the deal as a result of Soviet control of its economy and will continue to suffer severe economic hardship in the future while such control continues.

Continued Sovietization of the Polish economy will only result in a further downward spiral of the economic situation. Poland's economy has suffered through tens of billions of dollars of lost opportunities, waste, misallocation of resources Soviet for military purposes, alienation of its people and work force and even direct plunder.

Thanks to the Soviet Union, Poland's future is in jeopardy. However, I do not exclude the possibility that one day the people of

Poland will take on the Communist authorities and consequently the Soviets themselves.

Thus, for the sake of objectiveness, any studies on Poland's exploitation by the U.S.S.R. must go well beyond strictly established data analysis. Indirect as well as direct costs must be factored into the equation. These, of course, are difficult to establish, but I have attempted today to provide you with an insider's impression of how things are run in Poland.

My conclusion does not mirror Western economic analyses primarily because of what I have experienced. I have been party to events that lead me to conclude that my country is where it is today because the Soviet Union has seen fit to impose conditions and criteria governing our economic as well as political development.

Mr. Chairman, I will stand by my thesis that the Soviet Union should be held responsible for Poland's economic demise. While in some cases it may seem that the Poles are determining their own destiny, be assured that guidance has been given from "big brother."

I thank you and this Commission for providing me with an opportunity to set the record straight. I would welcome any questions you might have.

Mr. FASCELL. Mr. Ambassador, thank you very much. You certainly have provided a very fascinating scenario of your observations, one which I find extremely persuasive and one also which it seems to me is, if you are in the West, just as a matter of common-sense; you ought to assume that's what's happening anyway. To me it reads like the economic rape of Poland for whatever purposes the Soviets have. It is the best of the worst, depending on your point of view of economic imperialism. Wouldn't you say that's what your story is?

Do you think that based on your own observation, that this same situation occurs with other Eastern bloc countries?

Ambassador RURARZ. To some extent; yes, although very much less, I believe. Why? As I already have said, Poland, strategically speaking, is much more important to the U.S.S.R. than any other Eastern country. Therefore, the Polish economy is much more intertwined with the Soviet economy than any other Eastern bloc country economy especially as it pertains to the development of certain industries.

Mr. FASCELL. You mean for military and economic reasons?

Ambassador RURARZ. Yes; yes, of course for both reasons. Besides, from the very beginning, as I was trying to say, Poland was burdened with certain demands from the U.S.S.R. May I just remind you, Mr. Chairman, that during World War II, Poland never fought the U.S.S.R. It was allied with the U.S.S.R., the biggest one, by the way. We provided almost 500,000 soldiers to fight on the Soviet side. Nevertheless, Poland was obliged to pay war operations to the U.S.S.R. in the amount of 100 million tons of coal. It is true that only 56 million tons of that coal was delivered to the U.S.S.R. and afterward somehow the Polish Government at that time settled the account with the Soviets, although I must say that this deal, commercially speaking, was still fatal for Poland. But, in the meantime, we were prevented from exporting that coal to other

countries and to buy whatever we really wanted. At that time we were expanding the war industry.

May I say that the 6-year plan, covering the years 1950-55, the original version, changed twice at the insistence of the Soviet Union. I myself remember the meeting with Hilary Minc, who was at that time the chief planner of the Polish economy, when he was saying that the Soviets asked the Polish Government to start with the production of tanks in 1 year, and this was done, at tremendous cost. And there are many examples like that.

Mr. FASCELL. Let me interrupt you to ask you—Poland exported coal?

Ambassador RURARZ. Yes.

Mr. FASCELL. Was that for hard dollars or was that in the system?

Ambassador RURARZ. No, no; that was so-called "reparation coal."

Mr. FASCELL. Well, aside from the reparation coal, I meant—

Ambassador RURARZ. No, well, yes, that's what I wanted specifically to say. On the average, by the end of the 1940's and early 1950's, Poland was exporting to the U.S.S.R. about 14 million tons of coal a year, and half of that was the so-called reparation coal. And that coal was specifically priced in old rubles, 4 rubles and 4 kopeks, which was \$1.01 per ton, which was only one-seventh of the world price at that time.

Mr. FASCELL. Is that high grade coal?

Ambassador RURARZ. No, this was this so-called nonassorted coal. But again, as I say, this was one-seventh of the world price.

Mr. FASCELL. Just something I seem to recall here, did the Poles buy a process of high technology in coal from the Germans, either gas liquification—coal liquification or gasification?

Ambassador RURARZ. They were supposed to buy it, but they never did.

Mr. FASCELL. Never did.

Ambassador RURARZ. The credit was used for some other purposes.

Mr. FASCELL. In other words, that was used up so that the Poles could not get into the development—

Ambassador RURARZ. No, no; probably some plans still exist to this end, but I'm afraid there is now no possibility of going along with.

Mr. FASCELL. I'm curious about a statement you made about the 500,000 bus engines, special bus engines, which the Soviets suggested the Poles acquire. What were the Soviets going to do with 500,000 engines?

Ambassador RURARZ. No, maybe I should be more specific on that. This was the engines, not the buses.

Mr. FASCELL. Yes, right, I understand.

Ambassador RURARZ. Yes, 500,000 KHD design engines of all sorts, and spare parts were suggested. I myself was curious on that point and I was working against such a deal, because of our experience with locomotives. Even if Poland would comply, and would produce that many engines, the Soviet market would be very quickly saturated with those quantities. I don't know for what specific purpose they wanted those engines, but I can only guess for what

specific purpose such a staggering demand was presented at that time probably for a variety of purposes. But it is obvious that this demand for engines could not last and Poland would have invested resources with long-term production demand.

Mr. FASCELL. Somebody might have decided to build up a spare parts inventory, put it on the shelf?

Ambassador RURARZ. Probably so, and when the figure was first quoted to me, I thought that I misunderstood, I thought maybe it was 50,000 units, not 500,000. It was repeated to me again. I couldn't believe it. And afterward, this proposal was reviewed by Gierek but he was going to France and wanted to make a deal with the French which is another story. But that proposal misfired, quite simply, because Gierek was interested in making a deal with the French. But, nevertheless, I am just giving you the example of how sometimes pressure was placed to do this or that for the Soviets.

Mr. FASCELL. You know, I quite agree with you that there is tremendous misperception, in my judgment, in Western societies about the economics in Poland. There is a great tendency to separate Poland's economy entirely from that of the Soviet Union. I really don't know how they do it, but it's done.

Ambassador RURARZ. Neither do I know.

Mr. FASCELL. It's done, they do it. I remember talking to a banker in Sweden some 6 years ago, and I said, "How do you justify, as a financial institution, the enormous credits you're making to the Eastern Bloc countries? The economics in a rational sense are not there, how do you justify it?" He said, "Why, they've got great—from our standpoint, from a banker's standpoint—tremendous credit." I said, "Well, give me a list from the highest priority to the lowest in terms of credit rating." So he said, "Well, Poland's No. 1." I said, "Well, what happens when these things back up?" And he said, "Well, that's impossible." That was the banker's mentality, and I just cite that as an example to support your own observations. I still don't understand it yet today how that whole house of cards doesn't crumble financially.

Ambassador RURARZ. As a matter of fact, it did, but not too many realize it. The commercial bankers do not realize it.

Mr. FASCELL. There is no capability in the foreseeable future to independently pay that back?

Ambassador RURARZ. Certainly not, certainly not.

Mr. FASCELL. Well, I don't know. In other words, it is fair to assume or to state from your own observations that the current financial situation in Poland is a direct and indirect result of the Soviet participation, penetration, direction?

Ambassador RURARZ. Absolutely, yes. I haven't the slightest doubt about that. I continue to maintain that if this situation doesn't change, there is absolutely no possibility that Poland will extricate herself from the present economic mess, and it is very likely that this mess may be even bigger than anything in the past. According to my own estimates, there is a good chance that the GNP this year may fall by even more than one-fifth compared to the last years; 13 percent fall in the GNP and more than 4 percent in 1980 and then 2.5 percent in 1979, so all this, if compounded, the Polish GNP probably would fall, comparing to 1978, by something

like 40 percent or even more. So you can imagine, Mr. Chairman, the future hardships for the Polish people.

At the same time, "this state of war," the security police and so on, I think they are the only branch of the Polish society which is booming, whereas the others are, quite simply, very much depressed. So that's that. And to whom all that serves, certainly not the Polish people.

Mr. FASCELL. It certainly doesn't help the Poles. Frankly, it appears to me, as a total outsider, that what is taking place is that the Poles, and I suspect every other Eastern Bloc country, but particularly the Poles, are simply serving Soviet objectives in every way. In every normal sense they really are slaves to whatever the Soviet desire is, or whatever their perceived needs are, either economic or military or whatever. I mean, the Poles have to do their bidding. I think that has been translated to the Polish people. They are not stupid; they know what is going on.

Ambassador RURARZ. Oh, certainly they know, they know too well.

Mr. FASCELL. They are looking at a gun.

Ambassador RURARZ. Yes, certainly.

Mr. FASCELL. Well, I want to leave this to Mr. Oliver for just one second, but before he asks some questions, I wanted to ask you about what I would call Sovietization of the culture of the Polish people. I mean, what kind of pressure did you feel as an individual—aside from the sheer economics and so forth—just as an individual.

Ambassador RURARZ. Well, as an individual I must say that there is a great effort on the Soviet's part to make the Poles believe that everything is absolutely fine, that the Poles should forget everything from the near past. May I say, Mr. Chairman, that there was a lot, a lot of propaganda in Poland when the so-called desecration of the graves of the Soviet soldiers fallen in Poland was originally taking place, although I must say it was not very much.

At the same time, for instance, a symbolic monument for the Katyn victims in Warsaw—which was an 8-ton block—was removed during the night time—can you imagine that the Polish people could do that? And when the Committee composed of certain citizens of Poland went to the mayor of Warsaw asking to reestablish that symbolic monument for the Katyn victims, they were denied the right to do that.

So on one part the Poles are denied the opportunity to know their own history; where Poles died in a most cruel way. But Poland is celebrating today the 60th anniversary of the creation of the U.S.S.R. The Poles are celebrating that. And there are many other things like that. Every year we celebrate the so-called liberation of Warsaw, and of all the places, Warsaw was very much destroyed thanks to the lack of assistance from the Soviets. And even when some units of the Polish Army stormed Warsaw from across the Vistula (River) and created a bridgehead, they were not helped. Those Polish Army units were destroyed by the Germans.

So there you have it. Nevertheless, this is continuing all the time and the Poles are told to forget everything about their past and to always be very grateful—I don't know for what. But this effort is failing, Mr. Chairman, everybody knows the truth. Everybody

knows how to insulate himself against this stupid propaganda, and this is only a waste of money, you know, because the Poles will not buy that cheap propaganda.

Mr. FASCELL. I'm glad to know they are stubborn.

Ambassador RURARZ. Yes.

Mr. OLIVER. Mr. Ambassador, in one part of your statement you mentioned that the Soviet Union prevented the Polish Government from giving Gulf Oil permission to do extensive research and oil exploration in Poland. Why would they want to do that? If they had such complete control of the Polish economy, it seems to me that this would be another source of hard currency through the export of oil to the West and might reduce the pressure on them to supply the energy needs of almost all the other Warsaw Pact countries. Because, if I recall correctly, in the mid-sixties the Soviets were selling oil to their Warsaw Pact allies at below world market prices, which was a tremendous drain on their—

Ambassador RURARZ. No; at that time it was above.

Mr. OLIVER. It was above?

Ambassador RURARZ. Yes; afterwards, due to the special system of prices adopted in COMECON, our prices did not follow the pattern of world prices. There was some time lag, but it was compensated for in a different way. But I can assure you that it was above at that time. Besides, may I say, when it comes to this Gulf Oil question, I myself at that time was talking to the Gulf people. I mean, they came to us when I was here in Washington and they wanted to come to Poland because they were saying that satellite pictures suggested that some oil could be found in Poland, offshore and inland in Poland. Then we sent a cable to Warsaw, but there was no answer. Soon afterwards I was in Warsaw and there was mass confusion. The Soviets had denied the Poles delivery of more oil than was actually provided for in the trade agreement. Then the cable came that Gulf Oil Corp. wanted to do this research, prospective research and so on, in Poland. There was an investigation, for it was believed that someone had leaked information about Soviet unwillingness to provide Poland with more oil. There was a time coincidence, for the information leaked to the West and immediately Gulf seized upon this occasion and wanted to come to Poland.

It was definitely blocked, and I was specifically told at that time not to try to talk to Gulf any longer on that issue. Why was this done?

Poland is now 100 percent dependent on Soviet deliveries of oil. Let us suppose that something would happen—I don't believe this would happen—that the Soviets would have said to the Poles, "Do whatever you do politically speaking; however, economically we will not be providing you with oil." Believe me, that even if the Western countries would decide to give Poland that oil for nothing, it would be absolutely impossible. The Polish port facilities are not prepared to handle all the quantities of oil Poland needs. The oil refineries are not oriented toward that type of oil which could be imported, and besides, there is no pipeline between Plock, the biggest oil refinery near Warsaw, and so on and on. So that this makes sense. Besides, Romania is almost defecting, politically

speaking, but Romania is not dependent on oil, Soviet oil. We are in a different situation.

So there was a lot of reasoning behind this action, I think. Still, a couple of million tons of oil make no difference for the U.S.S.R. to do that on purely strategic grounds. Poland, however, is 100 per cent dependent.

Mr. OLIVER. In other words, you're saying that this was one particular resource that provided them with a certain amount of political control over Poland because they simply couldn't do without it?

Ambassador RURARZ. Certainly, as everybody in Poland, and this I can state with all the responsibility, is very much afraid of having the Soviet supplies of oil cut. They do—

Mr. FASCELL. Excuse me. How is the oil brought in?

Ambassador RURARZ. By the pipeline to Plock and further.

Mr. FASCELL. All they have to do is just push a button?

Ambassador RURARZ. Yes.

Mr. OLIVER. Let me ask you a question. Why when the Soviets have planned the famous pipeline that is being constructed now with Western credit, why did they go around Poland? It seems to me that that pipeline is coming—that the fastest way to Western Europe would be directly through Poland. But instead, they have brought it all the way around down the Soviet Union and through Czechoslovakia.

Ambassador RURARZ. I guess maybe they legitimately are afraid that the Poles would blow up this pipeline one day.

Mr. FASCELL. Sure.

Ambassador RURARZ. Why not?

Mr. OLIVER. Seems to be an awfully expensive way to do it.

Ambassador RURARZ. They believe the Czechs may be more manageable. But, also, I think this could be very misleading.

Mr. OLIVER. Can I ask you, when you were serving in this position, did you attend meetings of COMECON? How were these allocation decisions made? Were all the Warsaw Pact countries, all the members sitting around a table?

Ambassador RURARZ. COMECON is something which is—how would you say—a cover institution for the Soviets. The Secretariat is in Moscow. Nikolai Faddyev has been executive secretary since 1949 when it was created. There is no rotation. But COMECON is really not that important, I would say, because what are important, are the bilateral negotiations.

If you are preparing the plan of so-called social economic development in Poland, the draft plan is discussed with Gosplan in Moscow first, before any institution in Poland sees it.

When the delegation returns and is aware of initial Soviet reaction, of what would be preferable to produce at what target date and so on and so forth, only then is it given a further look and further elaborated on. Again it is discussed. No Polish economic plan is done otherwise. This is a precondition because, first of all, this is even commercially and economically warranted because you have to know whether they would give you 1 million tons of oil more or not, whether they would take this or that, and so on and so on. So that this is a precondition.

All the countries do like that. This COMECON arrangement does not encourage horizontal integration, not at all. Vertical integration is the norm here. So everybody goes to Moscow at present. Afterwards, of course, COMECON reports only certain things for public consumption.

I must say that there are sometimes funny stories because I myself was participating once in the negotiations between COMECON and the Common Market to establish their relations, and somehow the secretariat got mixed up on how to manage all those negotiations, so that the Soviet delegation was speaking on behalf of the secretariat all the time in the negotiations. This is, I think, the true picture of the situation.

Mr. OLIVER. Was there ever a time when you—when Polish authorities began to realize that the debt was escalating so rapidly, that the economy was functioning so poorly and that the requirements of the Soviet Union in terms of paying back Poles for imports in rubles would make it impossible for you to pay off this debt? Was this concern ever expressed to the Soviets? Did you realize what kind of a hole Poland was getting itself into when this escalation started to take place in your external debt?

Ambassador RURARZ. To the best of my knowledge, they were absolutely not concerned with all that because they believe—it was a common belief, by the way, not only in the U.S.S.R. but elsewhere—that it is the creditor's worry and not the debtor's worry about the size of the debt. If they cannot get payments on time, they probably would either have to reschedule the debt or to provide new credits. Nobody was very worried about being insolvent. It was believed that Western creditors were the golden goose which would provide you with those eggs incessantly. There was, I think, a big misunderstanding of the world financial markets. Everybody had the impression that the banks were overblown with excess money, which they don't know what to do with.

By the way, there are still many naive creditors so that this was practically, I must say, supporting that view.

Of course, when the leadership started to realize that something was wrong, rather late in 1979, as far as I know, this somehow penetrated the imagination of leadership in Poland that something was wrong. The so-called investment harvests were very much behind schedule and were not turning out the items which were supposed to supply the foreign markets in the future. Thus, the leadership started to worry a bit. Besides, the food deficit was growing terribly and the interest payments for food credits were growing. Don't forget that about 40 percent of the Polish debt applies to grain imports which have already been consumed.

It was believed that somehow the Western countries, the Western banks, would be forthcoming with new credits, rescheduling and so on, so that nobody was very worried about all that.

Mr. OLIVER. Was the granting of most-favored-nation [MFN] status helpful to Poland in helping to export goods to the West?

Ambassador RURARZ. As a matter of fact, Poland enjoyed the MFN treatment in all the Western countries with the exception of the United States, which was restored in December 1960, but then it was withdrawn in June 1962 although President Kennedy at that time did not sign the respective executive order, so that in fact

MFN treatment remained in force. Afterwards, MFN was restored formally by President Johnson through the Foreign Assistance Act of 1963.

When it comes to the Common Market countries and other Western European countries, when it comes to the custom tariff treatment, there was MFN treatment all the time. The only problem was that discrimination was in the so-called quantitative restrictions, not the so-called residual import restrictions, but the discriminatory restrictions, which are not very big, by the way. Sometimes the quotas established under those restrictions are never filled by Poland, but psychologically speaking, this had some effect.

So this was the situation and, certainly, under normal circumstances, I think, Poland could enjoy some preferential treatment by the Common Market. We could probably even associate with the Common Market, but this was out of the question, of course, on political grounds. So that if you ask on this score, then I would say that we suffered a lot because the abolishing of customs tariff within the large Common Market was, of course, not extended to Poland. And in a normal situation, I think Poland would seek to join the Common Market. Or even the so-called free trade zone in manufacturing in Western Europe, which is comprised of 16 countries. But again, it was prevented from doing that.

Mr. OLIVER. Knowing what you know from your experience in dealing with the Soviet Union on questions affecting the Polish economy, if you were a Western banker, would you extend credits to any of the countries that are members of COMECON?

Ambassador RURARZ. If I were a banker, I would have to be honest, you know. Who is building industry through banking credits? Commercial bank credits? Nobody. One who bids never repays, that's the philosophy.

There could certainly be some exceptions to that philosophy if the amount were small and if it would produce results quickly. But commercial credits are not used to expand the economy. This is out of the question. Of course, certain countries accept this because there is no alternative, but they still somehow calculate that they would never pay back that money, as the developing countries do in many cases and the eastern European countries do. That is up to the bankers because the soft terms are not offered by the commercial banks. They only embrace the loans by the World Bank, International Development Association and the like. And there is, of course, a private capital export but that is another story.

But commercial credits are not for expanding the industry. You can buy with their help raw materials, this I agree. Some components, OK. But nothing else. Even the grains should not be bought on commercial terms. Well, if there is a disastrous crop or something, that's different; but if you are doing this on a continuous basis what are you really counting on? In miracles?

Mr. OLIVER. You mentioned at one point that the Soviet Academy of Sciences indicated that because the standard of living was so high in Poland, relatively high compared to the Soviet Union, that they should consider either increasing the cost of raw materials three or four times or doing something else to, in effect, make the price higher. Do you have any knowledge of that sort of thing being contemplated for places like the German Democratic Republic?

lic or Hungary where the standard of living is much higher than it is in the Soviet Union?

Ambassador RURARZ. Yes, well, there is a clear understanding in the U.S.S.R. that the U.S.S.R. provides the eastern European countries with raw materials and accepts many manufacturers in return. They were saying that since the expansion of raw material production in the U.S.S.R. is becoming ever more costly, and it is mostly done in the Asian part of the U.S.S.R. and sometimes behind the Polar Circle, they cannot do this on commercial grounds. Besides, may I say, prices for raw materials, because these are homogeneous items, are easy to compare with the world market prices. So that they were aware that they are not competitive when it comes to the raw materials because of the extraction, the transportation costs and so on. So that they were aware that if their production of extraction of raw materials is shifted toward the territories behind the Ural Mountains, that this is too costly for them, although they themselves don't have a clear picture of the cost of production.

At the same time, they were claiming that the manufactures imported from the Eastern countries are inferior in quality compared to the Western manufactures. So that the idea was, of course, that since the standard of living is higher in Eastern European countries, why should they be carrying all this burden on their shoulders? Then they proposed these thoughts be translated into Polish as a book. This book was supposed to go on sale, but the Prime Minister at that time, Jaroszewicz, prevented that book from being sold to the public. However, I did have that book, which was confiscated, when I was in Warsaw.

Thus, there was finally a proposal by the Soviets that the Eastern European countries should be participating, at least in the so-called common investment projects to expand these sources of raw materials. In other words, the idea took a practical shape. Poland is participating, and the other countries also participate in these common investments. Poland even participated with labor inputs, not only with technology and certain things like equipment, but also the manpower was sent over there to build gas pipelines.

Mr. FASCELL. Mr. Brescia, do you have a question?

Mr. BRESCIA. Mr. Ambassador, just one question. In your statement you refer to the fact that one of the fundamental obstacles to any effective economic progress in Poland is the inability of the structural apparatus to reform, and you imply that the Soviet Union was instrumental in halting any change in this direction. Could you be a little more specific in what you mean by that, and is this in any reference to the new economic strategy of the 1970's and how that has developed or not developed?

Ambassador RURARZ. There was at a certain moment—after all, the Eastern European economies are, to a large extent, the developed economies, technically speaking, and there was, of course, a question of "what next?" If they grow, let's say, 5 percent a year or something like that, at a compounded rate, of course, at the time it would be a tremendous increase in production, but to what end? I myself proposed to Gierek at a certain point before the Sixth Party Congress that it should be said openly that the main purpose of this production is to serve the growing consumption of the people

and so on, that we should be trying to create a sort of a "socialist mass consumption society". I spoke with many hardliners on that point. Of course, they didn't want to accept that.

By the way, I spoke to the Soviets also. They were absolutely unwilling to accept the idea. They believed that this could be, how would you say, highly controversial ideologically speaking, and besides inviting people to believe that one day they could consume more or something, as well as some other points, such as increased objectives for production. Of course, consumption probably should be rising in the meantime, but, nevertheless, this should be an objective of the economic development.

I must say that, without going into detail, because sometimes the detailed discussion was quite funny on that, it was believed that even the Hungarians—and then I even told them that, "Look, the Hungarians seem to be saying this and even doing it." Well, Hungary is less important, after all, strategically speaking. Besides somehow they have cheated us because we don't speak Hungarian that much, and so on, and the like.

But I knew that there was also some pressure against Hungary not to overplay that consumption trend. And, as a matter of fact, but this is probably also due to some other circumstances in the current 5 year plan of Hungary, there is really a complete freeze when it comes to the standard of living. But this is probably not specifically resulting from some ideological pressure only but from some other factors as well.

Mr. FASCELL. Mr. Ambassador, is there any sector of the Polish economy that operates for the sake of Poland?

Ambassador RURARZ. I would say private farming, although it is very much suppressed, repressed, and depressed.

Mr. FASCELL. In other words, the net importer, the private farmer—

Ambassador RURARZ. Yes. Still, this is the most efficient business, if I may say so, much more efficient, three times on the average more efficient than the state farms. Some small private handicraft enterprises still somehow seem to have a sense of costs. Even in this very distrusted infrastructure, they nevertheless tried to do something. But this is, of course, close to impossible. They could do much more, but how can they?

Mr. FASCELL. You raised the question about the Katowice steel mill in Poland. You said it was in the wrong place, inappropriate place, but that the Soviets wound up with a wide-gauge railroad in Poland. What is the significance of that?

Ambassador RURARZ. In case of hostilities, although, I don't know, the military are always slow to imagine what the hostilities could be, but, nevertheless, it has a strategic importance because the Polish railways have a different gauge than the Soviet railways. So that whatever is coming—

Mr. FASCELL. Do the Soviets use narrow or standard?

Ambassador RURARZ. No; they have broad.

Mr. FASCELL. They use—

Ambassador RURARZ. Broad. Whereas Poland and other Eastern European countries, they use the normal gauge. In case of hostilities the transportation of equipment can be a problem, causing bottlenecks because of different gauges in the railways. In this

case, that railway goes deep into Poland, close to Eastern Germany——

Mr. FASCELL. In other words, it is the same gauge as the Soviets.

Ambassador RURARZ. As in the U.S.S.R., yes.

Mr. FASCELL. It is a wide-gauge railroad that goes all the way through so they don't have to stop. What you are saying, as I gather, is they built the steel mill in a bad place anyway, but one of the benefits they got out of it was a railroad that goes deep into Poland?

Ambassador RURARZ. Yes; especially since that railroad was, of course, built by the Poles and it was very costly to us. Due to the hastily arranged work to the best of my knowledge, it was as costly as the steel plant itself.

Mr. FASCELL. So they just extracted that from the Poles——

Ambassador RURARZ. Yes.

Mr. FASCELL [continuing]. Something that basically has primarily a military value because as far as the steel is concerned they could have carried the steel on anything?

Ambassador RURARZ. Yes; well, it was presumed that iron ore would be transported from the Ukraine over this line. The problem is that now there are some difficulties in the Ukraine with the extraction of iron ore, especially of higher quality, so that—but, nevertheless, the railway is there, yes.

Mr. FASCELL. Let me ask you, what effect do you think the present economic sanctions imposed by the United States and other Western countries will have on the Polish authorities and the Soviet Union? Any?

Ambassador RURARZ. Certainly, I think that both the military junta and the U.S.S.R. feel the pinch of those sanctions. I think if you live up to the commitments and if the others would follow suit, I am definitely convinced, I repeat and emphasize, definitely convinced that there is no other way out for the Polish economy than to collapse, quite simply. There is no alternative that the U.S.S.R. or the Eastern European countries would make up the gap.

As a matter of fact, this year only the Soviets say that they are helping the Poles but if this would be true, then how could you explain that the Vice Minister of Foreign Trade Gwiazda said that the Polish exports this year to the U.S.S.R. would increase by 13 percent, whereas the imports would fall by 2.3 percent. So if this is the assistance, why are imports falling?

Besides, the other Eastern European countries declared that somehow they would provide assistance, although it remains to be seen whether this would be forthcoming in the range of \$500 million, and probably Soviet assistance and the credits and so on could be maybe in the range of up to \$2 billion, something like that. But the Polish economy needs something like \$17 billion this year in rescheduling new credits. So there is the difference. They cannot close that gap. The Polish economy cannot function normally.

As I said, there is a great probability that this year the GNP could fall by as much as one-fifth and the chain reaction of that would be tremendous. And a year afterwards I don't know what may happen. And so on and so on.

Besides, I think this is also very important that one cannot complete certain investment projects which are 95-percent completed.

Already there is no money to import raw materials and to employ those so that everything is idle. So that immediately the junta is facing a terrible problem of what to do next. Of course, they are now saying that discipline will help the economy—this is stupid talk. Even a disciplined worker cannot work at something which doesn't work at all, because either the raw materials are not there or parts are missing or something like that. So discipline won't help.

In certain extraction industries, the regimentation of the work force may temporarily produce some increase. By the way, very recently a worker in Katowice's steel plant was sentenced for 3 years for refusing to work in such a militarized team because they are now not working only for pay or something like that but they are supposed to be working as a military unit. He got a 3-year sentence for that. The same is true of the coal miners if they refuse. So that this is slave labor.

While slave labor sometimes may extract some coal, or sulfur, they cannot produce electronics. It is out of the question. So this fascist-like pronouncement by Jaruzelski recalls of a famous German slogan at the entrance to Auschwitz concentration camp, "Arbeit Macht Frei," which is that "labor makes you free."

Mr. FASCELL. Mr. Ambassador, you have shed a very thorough, sad light, it seems to me, on Eastern world economics, something which all of us, and by that I mean the Congress and our governmental people and private business, must consider very, very seriously. Here we are under Basket II, under great protocols, if everybody would abide by them, and we are trying to open up and expand trade and communicate in an economic sense and that's almost impossible as between East and West because it is almost an impossibility internally with the East.

I was a little bit depressed before in terms of the possibilities of using economics as a platform, as a point of entrance, for some kind of common denominator for stability. But after listening to you, I'd say we might as well forget it, we're just being naive, we're being stupid, and I don't see any chance of success. We might as well approach it as a hard business deal and either they've got the gold or they haven't got the gold, we don't give them the technology. If they are going to make slaves out of all of their own people, let them come up with the technology. We might as well be very, very hardnosed about it.

Ambassador RURARZ. I think so, yes.

Mr. FASCELL. I want to thank you very much for taking the time to come back and explore this subject with us and to prepare your statement and answer the questions. I would hope that other committees of the Congress that have different jurisdictions than that of this Commission would undertake to read your testimony and the answers to the questions that you made. I think it is very important.

What I would propose to do, Mr. Ambassador, is when this is printed up, we would send it to the appropriate committees of Congress. Too bad they can't all hear you, but I don't want to add to your schedule because you have been very generous with your time. But I think it is a very serious matter that our commerce committees—foreign commerce, and domestic commerce commit-

tees—our intelligence committee and others should have the benefit of your testimony, and we will undertake to see that that's done.

Ambassador RURARZ. Mr. Chairman, I would not spare any of my time to comply with your suggestions.

Mr. FASCELL. It is obvious that you are not just an ordinary person giving your opinion. You are an expert and you have lived there and there is great meaning and weight that has to be given to what you say.

On behalf of the Commission and for all of us, I want to thank you very, very much.

Ambassador RURARZ. I thank you.

[Whereupon, at 3:35 p.m. on Thursday, April 1, 1982, the Commission meeting was adjourned.]

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